Retired Members | DECEMBER 2019

PSRS Benefit Check

PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI

Board Votes on 2020 Cost-of-Living Adjustment and 2020-2021 School Year Contribution Rates

Contact Us
PO Box 268
3210 W. Truman Blvd.
Jefferson City, MO
65102-0268
Call Toll Free (800) 392-6848
or (573) 634-5290

Email
psrspeers@psrspeers.org

Web
www.psrs-peers.org

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Board Votes on 2020 Cost-of-Living Adjustment and 2020-2021 School Year Contribution Rates

At the October 28, 2019 meeting of the PSRS/PEERS Board of Trustees, Board members voted on whether to grant a January 2020 cost-of-living adjustment for benefit recipients, as well as the active member and employer contribution rates for the 2020-2021 school year.

CPI-U Not High Enough for a January 2020 Cost-of-Living Adjustment (COLA)

The COLA decision is based in part on the Board's current COLA policy, which takes into consideration the increase in the Consumer Price Index for Urban Consumers (CPI-U) as determined by the U.S. Bureau of Labor Statistics for the previous fiscal year, as well as the recommendation of the Systems' actuary, PricewaterhouseCoopers (PwC).

Each year, PwC performs an actuarial valuation of the Systems and presents it to the Board at the October meeting. It includes a detailed look at factors that impact the funded status of the Systems. This year, an actuarial audit was also performed by Cavanaugh Macdonald (CM), which confirmed PwC's results. This information is studied by the Trustees and used in making financial and funding decisions for the Systems.

It is the Board's fiduciary responsibility to the Systems and members to make decisions that are consistent with maintaining the Systems' ongoing financial health and strong funded status. Based on this year's actuarial valuation, and according to the COLA policy, PwC did not recommend a 2020 COLA.

The Board voted in agreement with PwC's recommendation. The increase in the CPI-U for PSRS/PEERS' fiscal year 2019 was 1.65%. According to the COLA policy adopted by the Board in 2017, this is not high enough to grant a COLA effective January 1, 2020.

PSRS/PEERS COLA Policy	
CPI-U	**COLA**
Less than 0.0%	0.0%
0.0% to 2.0%	0.0% when CPI-U is cumulatively below 2.0%
0.0% to 2.0%	2.0% when CPI-U cumulatively reaches 2.0% or more*
2.0% to 5.0%	2.0% when the CPI-U is at least 2.0%, but less than 5.0%
5.0% or more	5.0%

*Resets cumulative calculation after a COLA is provided.

Since a COLA will not be granted in January 2020, the 1.65% change in the CPI-U will carry over and be added to the next fiscal year's cumulative calculation. Therefore, the change in the CPI-U during fiscal year 2020 would need to be 0.35% or more in order for eligible retirees to receive a 2% COLA in January 2021 under this policy.

The calculation is as follows:

Period	Change in CPI-U	Final Results
Fiscal Year 2018-2019	1.65%	No COLA Granted
Fiscal Year 2019-2020	X.XX%	To Be Determined
Cumulative CPI-U as of June 30, 2020	1.65%+X.XX%	Basis for January 1, 2021 COLA

COLAs have been granted to eligible benefit recipients for the past two years.

Contribution Rates Unchanged for 2020-2021 School Year

Board members also voted to maintain the current active member and employer contribution rates for the 2020-2021 school year. The 2020-2021 school year runs from July 1, 2020 to June 30, 2021.

Based on PwC's recommendation, PSRS contribution rates will remain as follows:

2020-2021 PSRS Contribution Rates		
Member Rate	**Employer Rate**	**Combined Rate**
14.5%	14.5%	29%

Contribution rates have been at the current level since 2011.

"Decisions regarding the COLA and contribution rates are extremely important ones that impact all of our members," said Board Chairman Aaron Zalis. "The overall health and solvency of the plans for both current and future members must always be our focus, and our actions should serve that end."

PSRS/PEERS Achieve Fiscal Year 2019 Investment Return of 7.0%

Fiscal year 2019 (July 1, 2018 through June 30, 2019) was marked by global trade issues and a Federal Reserve that increased interest rates in December, only to change the position to one of lowering rates shortly thereafter. This fluctuation in both trade and monetary policy led to tremendous volatility in both the bond and stock markets.

U.S. stocks were down 8.2% in the first six months of the fiscal year, only to rally 18.7% in the last half of the year. Bond yields remained relatively stable early in the fiscal year before declining significantly in the last half as the yield on the 10-year Treasury bond moved from 2.7% on December 31, 2018 to 2.0% on June 30, 2019. In total, the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) benefited from the overall investment environment, as the Systems' U.S. stock portfolio returned 7.4% in fiscal year 2019, the private equity portfolio increased 15.4% and the Treasury bond portfolio returned 6.1% (due partially to the dramatic decline in interest rates).

The Systems' assets increased through investment earnings by over $2.9 billion from the previous year with a total fund performance of 7.0% (or 6.9% net of all fees and expenses). Over long periods of time, PSRS/PEERS continue to produce investment returns that meet or exceed the Systems' long-term investment objective (actuarial assumption) of 7.5%. The annualized investment return for PSRS and PEERS is 8.3% over the last 30 years.

"Our long-term goal is to provide consistent and meaningful investment returns to support the retirement benefits of our members," says Steve Yoakum, PSRS/PEERS executive director. "We earned 7.0% in a very challenging investment environment in fiscal year 2019, but more importantly, we are pleased to achieve our return objectives over longer time horizons.

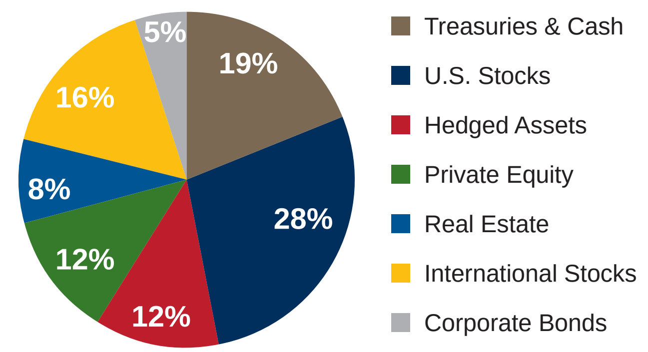
Our internal investment staff is committed to managing the Systems' assets in a prudent manner and has consistently, over the last five years, produced investment returns that rank in the top 30% of similar plans in the United States with assets in excess of $1 billion, while maintaining a risk level that is much lower than the national average."

The total plan return of 9.9% over the last 10 years exceeded both the historical long-term investment objective (actuarial assumption)[1] and the total plan policy benchmark return of 9.1%[2].

Five-Year Investment Results Period Ending 6/30/19	
PSRS/PEERS Investment Return	9.9%
PSRS/PEERS Actuarial Assumption[2]	7.5%
Benchmark Return[1]	9.1%

As we begin fiscal year 2020, we are mindful of the fact that it will become increasingly more difficult to achieve the actuarial assumed investment objective of 7.5% in the near term due in part to historically low interest rates, increasing geopolitical conflicts, a potential trade war and because we are in the very late stages of an economic cycle (the longest expansion in history). However, as a large institutional investor, we believe that we are particularly well suited to navigate upcoming markets given our ability to invest over a 30-year time horizon. The following chart indicates the PSRS/PEERS asset allocation which is highly diversified among several different investment classes.

PSRS/PEERS Asset Allocation as of June 30, 2019



The asset allocation is balanced with a significant distribution to return-seeking assets such as stocks and private equity but also a healthy allocation to more defensive investments such as Treasury securities, cash and hedged assets. As the stock market continues to reach new highs, we believe it is prudent to maintain a structured portfolio that has an opportunity to participate if the markets continue to move higher, but also has substantial downside protection in the event of a market correction. In each year, every specific asset class within the PSRS/PEERS investment portfolio performs a valuable function. The following chart indicates the investment return for each major asset class in the PSRS/PEERS portfolio over the last 10 years, for the period ended June 30, 2019.

10-Year PSRS/PEERS Investment Returns (by Asset Class)	
Treasuries and Cash	2.8%
U.S. Stocks	14.7%
Hedged Assets	8.0%
Private Equity	16.0%
Real Estate	10.0%
International Stocks	8.7%
Corporate Bonds	5.2%

The market value of invested assets for PSRS and PEERS combined were approximately $45.2 billion on September 30, 2019, making the joint entity larger than all other public retirement plans in Missouri combined, and the 44th largest defined benefit plan in the United States. For the most recent PSRS/PEERS investment news, visit us on the web at **www.psrs-peers.org.**

[1] The Board of Trustees revised the long-term investment return objective (actuarial assumption) from 8.0% to 7.75% effective July 1, 2016. The objective was further reduced from 7.75% to 7.6% effective July 1, 2017 and from 7.6% to 7.5% effective July 1, 2018.

[2] The plan policy benchmark is a standard to measure investment performance and indicates the return of the PSRS/PEERS asset allocation if passive market rates of return were achieved.

Watch for Important End-of-Year Documents: Your *Benefit Statement* and IRS Form 1099-R

Annual PSRS *Benefit Statement*

In January, you will receive your annual PSRS ***Benefit Statement***. The ***Benefit Statement*** is a comprehensive summary of your PSRS membership and your monthly benefit as of January 31, 2020.

This important document is a record of your:

- Benefit amount
- Tax information and withholding amounts
- Benefit plan and benefit history
- Cost-of-living adjustments (COLAs)
- Beneficiary designation

NOTE: If you would prefer to skip the paper next year and receive an email notification when your statement is ready to view online, please visit Web Member Services at **www.psrs-peers.org** and update your communication preferences by selecting "My Profile" at the top of the page, and then "Change Communication Preferences."

Please review your statement to see if you need to make updates to your contact information or beneficiary designation with PSRS.

You can update your mailing address, phone or email address by logging in to Web Member Services at **www.psrs-peers.org** or using a ***Member Information Change*** form also available on our website or from our office.

Please contact us with any questions about changes to your post-retirement beneficiary designation.

IRS 1099-R Tax Form

Your 2019 IRS Form 1099-R will also mail in January. You will need this form when filing your 2019 income tax returns. Your annual Form 1099-R shows the total funds you received from PSRS in calendar year 2019, the taxes withheld, and the dollar amounts considered taxable income. If you have a professional tax advisor, we suggest that you make this information available for his or her review.

Tax Time is Coming. Are You Eligible for the Missouri Public Pension Exemption?

For tax year 2019, married couples with Missouri adjusted gross income less than $100,000 and single individuals with Missouri adjusted gross income less than $85,000 may deduct up to 100% of their public retirement benefits (such as PSRS service retirement benefits), to the extent the amounts are included in their federal adjusted gross income.

- Married couples with Missouri adjusted gross income greater than $100,000 and single individuals with Missouri adjusted gross income greater than $85,000, may qualify for a partial exemption.
- There is no age requirement for eligibility.

Visit **www.dor.mo.gov** for more information regarding eligibility or contact the Missouri Department of Revenue at **(573) 751-3505**, email income@dor.mo.gov or consult a tax professional for more information.

Is Your Beneficiary Designation Up-to-Date?

Help Us Make Sure We Can Pay Benefits According to Your Wishes

It is important to keep your beneficiary designations with PSRS up-to-date to ensure any benefits payable to your loved ones upon your death are distributed according to your wishes. You can see your current beneficiary designations by logging in to Web Member Services at **www.psrs-peers.org** or by referring to your annual ***Benefit Statement.***

Disability retirees and service retirees who selected the Single Life benefit plan or a Term-Certain benefit plan can update beneficiary designations at any time using forms available on our website or by contacting our office. Your beneficiary for the $5,000 Death Benefit can also be updated at any time.

If you selected a Joint-and-Survivor benefit plan at retirement, you can only change your beneficiary if you designated your spouse at retirement and a death or divorce has occurred. If this is the case, please contact us for more information.

10 Things to Know About Working After Retirement

Working as a retiree for a PSRS-covered employer can be rewarding and beneficial for you and your employer. But some work is limited by law if you want to continue to receive your retirement benefits. Here are a few important things you should know, if you are working as a retiree, or plan to in the future.

1. **Work for a PSRS-covered employer is limited by law in order to continue receiving your benefits.** Work in DESE-certificated positions at K-12 school districts is subject to limits on hours worked and salary earned each school year. Work at K-12 school districts in positions that don't require a certificate is subject only to a limit on the amount of salary you can earn each school year.
2. **If you retired in a month other than July, your limit(s) will be lower (pro-rated)** during the first year after retirement, since you will not be eligible to work as a retiree for the entire school year.
3. **Work for PSRS-covered community colleges** is subject to limits on hours worked and salary earned each school year. **Work for third-party providers, such as staffing agencies, is limited** if you work in a DESE-certificated position at a PSRS-covered school district.
4. Work for other non-PSRS-covered employers is **not** subject to limits.
5. When your employer reports you as working after retirement, we will send you information including your limits and a form to track your work.
6. **If you exceed a work limit, your benefits will be put on hold** effective the month you exceed the limit and until the month after your work ends or when a new school year begins on July 1, whichever comes first.
7. If you exceed a work limit, **the minimum amount you will forfeit is one full monthly benefit**.
8. **In addition to regular pay, the following types of payments count toward your annual salary limit:**
   - Bonuses or stipend pay for attending a conference or other special project
   - Gift cards
   - Payouts for unused leave
   - Employer-paid insurance premiums paid for you (the retiree)
9. You should talk with your employer and be sure you understand how they are tracking and reporting your work.
10. You can see the work your employer has reported to us by logging in to Web Member Services at **www.psrs-peers.org.**

PUBLIC SCHOOL RETIREMENT
SYSTEM OF MISSOURI

PO BOX 268 JEFFERSON CITY MO 65102-0268

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LiveChat Now Available at **www.psrs-peers.org**

Have a quick question about PSRS? Let's chat about that! LiveChat is now available on our website, **www.psrs-peers.org**, Monday through Friday from 7:30 a.m. to 5 p.m. It's an easy way to get general information about your Retirement System. If you have questions that require discussion of your personal information, for security reasons we ask that you please call us instead at **(800) 392-6848**.